

BMG RESOURCES LIMITED

ACN 107 118 678

Circular to Shareholders

Including

NOTICE OF MEETING

EXPLANATORY MEMORANDUM

PROXY FORM

Date of Meeting

24 November 2014

Time of Meeting

1.00pm (WST)

Place of Meeting

Cliftons, Parmelia House

Level 4, 191 St Georges Terrace Perth Western Australia 6000

These documents should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional advisor prior to voting.

NOTICE OF MEETING

Notice is hereby given that a General Meeting of BMG Resources Limited will be held at Cliftons, Parmelia House, Level 4 191 St Georges Terrace Perth, Western Australia 6000 on **24 November 2014 at 1.00pm (WST)**.

AGENDA

RESOLUTION – CONSOLIDATION OF CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an ordinary resolution:

"That pursuant to section 254H of the Corporations Act and for all other purposes, the issued capital of the Company be consolidated on the basis that:

- (a) every ten (10) Shares be consolidated into one (1) Share; and*
- (b) every ten (10) Options be consolidated into one (1) Option,*

and where this Consolidation results in a fraction of a Share or an Option being held, the Directors be authorised to round that fraction up to the nearest whole Share or Option (as the case may be)."

Short Explanation: Under the Corporations Act, a Company may convert all or any of its securities into a smaller amount by resolution passed at a general meeting. The Company currently has approximately 630 million Shares on issue, which is relatively large for a company of its size. The proposed share consolidation will reduce the number of shares on issue to approximately 63 million, creating a more appropriate capital structure and greater flexibility to undertake capital initiatives. Further information about the Resolution is contained in the accompanying Explanatory Memorandum.

By Order of the Board



Fleur Hudson

Company Secretary

NOTES

Voting entitlements

The Directors have determined that, for the purpose of voting at the General Meeting, Shareholders eligible to vote at the General Meeting are those persons who are the registered holders of Shares at 1.00pm (WST) on 22 November 2014.

How to vote

You may vote by attending the General Meeting in person, by proxy, or by an authorised representative.

Voting in person

To vote in person, attend the General Meeting on the date and at the place set out above. Shareholders are asked to arrive at the venue 30 minutes prior to the time designated for the meeting, if possible, so that the Company may check their shareholding against the Company's share register and note attendances.

Voting by proxy

A Shareholder has the right to appoint a proxy (who need not be a Shareholder). A proxy can be an individual or a body corporate. A body corporate appointed as a Shareholder's proxy may appoint a representative to exercise any of the powers the body corporate may exercise as a proxy at the General Meeting. The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

If a Shareholder is entitled to cast two or more votes he may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise. If the Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half the votes.

To vote by proxy, the Proxy Form (together with the original of any power of attorney or other authority, if any, or certified copy of that power of attorney or other authority under which the Proxy Form is signed) must be deposited with the Company at the registered office Level 14, Parmelia House, 191 St Georges Terrace Perth WA 6000 or faxed to the Company (+61) (8) 9321 5932, not less than 48 hours before the time for holding the meeting. A proxy presented by a company should be under the common seal of that company.

Corporate Representatives

A body corporate may elect to appoint an individual to act as its representative in accordance with section 250D of the Corporations Act, in which case the Company will require a certificate of appointment of the corporate representative executed in accordance with the Corporations Act.

The certificate of appointment must be lodged with the Company and/or the Share Registrar, Security Transfer Registrars Pty Ltd, before the General Meeting or at the registration desk on the day of the General Meeting. Certificates of appointment of corporate representatives are available at Security Transfer Registrars Pty Ltd or on request by contacting Security Transfer Registrars Pty Ltd on telephone number (08) 9315 2333.

Questions from Shareholders

At the Meeting the Chairman will allow a reasonable opportunity for Shareholders to ask questions about the matters the subject of this Notice. Written questions in advance of the Meeting can be sent to the Company as follows:

By mail: Level 14, Parmelia House
 191 St Georges Terrace
 PERTH WA 6000

By Facsimile: (within Australia) (+61) (8) 9321 5932

In person at the Registered Office: Level 14, Parmelia House
 191 St Georges Terrace
 PERTH WA 6000

Enquiries

Shareholders are invited to contact the Company Secretary, Fleur Hudson, on (08) 9424 9390 if they have any queries in respect of the matters set out in these documents.

By Order of the Board

Date 20 October 2014



Name **Fleur Hudson**
 Company Secretary

The Notice of Meeting, Explanatory Memorandum and Proxy Form should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting

EXPLANATORY MEMORANDUM

Introduction

This Explanatory Memorandum is prepared for the information of Shareholders in connection with any business to be transacted at the General Meeting of the Company to be held on 24 November 2014.

The purpose of this Explanatory Memorandum is to provide information that the Board believes to be material to Shareholders in deciding how to vote on the resolution in the accompanying Notice of General Meeting.

The Explanatory Memorandum should be read in conjunction with the accompanying Notice of Meeting. Capitalised terms in this Explanatory Memorandum are defined in the Glossary. All amounts referred to in this Explanatory Memorandum are in Australian dollars unless specified otherwise.

Resolution – Consolidation of capital

Background

This Resolution seeks Shareholder approval to consolidate the number of Shares and Options on issue on a ten (10) to one (1) basis.

The effect of the Consolidation will be to:

- (a) reduce the number of Shares on issue from 629,227,732 Shares to approximately 62,922,774 Shares; and
- (b) reduce the number of Unlisted Options on issue from 57,500,000 Options to 5,750,000 Options and increase the exercise price of such options by a multiple of 10 (please refer to the table below for further details of the terms of Unlisted Options).

The current number of Shares on issue is relatively large for a company of the size of the Company. The reduction in the number of Shares on issue will create a more appropriate capital structure and provide the Company with greater flexibility to undertake capital initiatives.

Legal requirements

Section 254H of the Corporations Act provides that a company may, by resolution passed in a general meeting, convert all or any of its shares into a larger or smaller number.

Fractional entitlements and taxation

Not all Shareholders and Optionholders will hold that number of Shares or Options which can be evenly divided by 10. Where a fractional entitlement occurs, the Directors will round that fraction up to the nearest whole Share or Option.

It is not considered that any taxation implications will exist for Shareholders or Optionholders arising from the Consolidation. However, Shareholders and Optionholders are advised to seek their own tax advice on the effect of the Consolidation. The Company, the Directors and the Company's advisors do not accept any responsibility for the individual taxation implications arising from the Consolidation.

Holding statements

From the date of the Consolidation, all holding statements and certificates for Shares and Options will cease to have any effect, except as evidence of entitlement to a certain number of Shares and Options on a post-Consolidation basis. After the Consolidation becomes effective the Company will arrange for new holding statements to be issued to Shareholders and Optionholders.

It is the responsibility of each Shareholder and Optionholder to check the number of Shares and Options held prior to disposal or exercise (as the case may be).

Effect on capital structure

The effect of the Consolidation will have on the Company's capital structure, subject to rounding discrepancies, is set out in the table below:

| Capital structure | Shares | Unlisted Options* |
|-------------------------------|---------------|--------------------------|
| Pre-Consolidation Securities | 629,227,732 | 57,500,000 |
| Post-Consolidation Securities | 62,922,774 | 5,750,000 |

* The terms of these Options are set out in the tables below.

The effect the Consolidation will have on the terms of the Unlisted Options is as set out in the tables below:

Options pre-Consolidation

| Terms | Number |
|---|---------------|
| Options exercisable at \$0.22 each; expiring on 09/12/2014. | 1,500,000 |
| Options exercisable at \$0.20 each; expiring on 01/07/2016. | 1,400,000 |
| Options exercisable at \$0.22 each; expiring on 01/07/2016. | 2,600,000 |
| Options exercisable at \$0.035 each; expiring on the earlier of the 3 rd anniversary of the date of issue or 6 months after Mr Christopher Eager's employment with the Company ceases. | 5,000,000 |
| Options exercisable at \$0.05 each; expiring on the earlier of the 3 rd anniversary of the date of issue or 6 months after Mr Christopher Eager's employment with the Company ceases; vesting on 31/12/2014. | 5,000,000 |

| | |
|---|-------------------|
| Options exercisable at \$0.035 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource. | 5,000,000 |
| Options exercisable at \$0.04 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes | 5,000,000 |
| Options exercisable at \$0.045 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes. | 5,000,000 |
| Options exercisable at \$0.05 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company's completion of a successful Feasibility Study. | 10,000,000 |
| Options exercisable at \$0.035 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Dr Michael Green's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource. | 3,000,000 |
| Options exercisable at \$0.04 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Dr Michael Green's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes. | 3,000,000 |
| Options exercisable at \$0.045 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Dr Michael Green's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes. | 3,000,000 |
| Options exercisable at \$0.05 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Dr Michael Green's employment with the Company ceases; vesting on the Company's completion of a successful Feasibility Study. | 8,000,000 |
| Total | 57,500,000 |

Options post-Consolidation

| Terms | Number |
|---|---------|
| Options exercisable at \$2.20 each; expiring on 09/12/2014. | 150,000 |
| Options exercisable at \$2.00 each; expiring on 01/07/2016. | 140,000 |
| Options exercisable at \$2.20 each; expiring on 01/07/2016. | 260,000 |

| | |
|--|------------------|
| Options exercisable at \$0.35 each; expiring on the earlier of the 3 rd anniversary of the date of issue or 6 months after Mr Christopher Eager's employment with the Company ceases. | 500,000 |
| Options exercisable at \$0.50 each; expiring on the earlier of the 3 rd anniversary of the date of issue or 6 months after Mr Christopher Eager's employment with the Company ceases; vesting on 31/12/2014. | 500,000 |
| Options exercisable at \$0.35 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource. | 500,000 |
| Options exercisable at \$0.40 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes | 500,000 |
| Options exercisable at \$0.45 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes. | 500,000 |
| Options exercisable at \$0.50 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company's completion of a successful Feasibility Study. | 1,000,000 |
| Options exercisable at \$0.35 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Dr Michael Green's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource. | 300,000 |
| Options exercisable at \$0.40 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Dr Michael Green's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes. | 300,000 |
| Options exercisable at \$0.45 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Dr Michael Green's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes. | 300,000 |
| Options exercisable at \$0.50 each; expiring on the earlier of the 3 rd anniversary of the date on which they vest or 6 months after Dr Michael Green's employment with the Company ceases; vesting on the Company's completion of a successful Feasibility Study. | 800,000 |
| Total | 5,750,000 |

Consolidation timetable

Subject to Shareholder approval of the Consolidation, the proposed timetable for the Consolidation is set out below. The dates are indicative only and are subject to possible change.

| Event | Anticipated dates |
|--|-----------------------------|
| Shareholder approval of the Consolidation at the Meeting | Monday, 24 November 2014 |
| Last day for trading in pre-consolidated Securities | Tuesday, 25 November 2014 |
| Trading in Shares and Listed Options on a deferred settlement basis starts | Wednesday, 26 November 2014 |
| Last day for registration of transfers on a pre-Consolidation basis | Friday, 28 November 2014 |
| First day for despatch of notice to each Security holder informing them of the changes to their holdings. | Monday, 1 December 2014 |
| <ul style="list-style-type: none">• Issue date• Last day for despatch of notice to each Security holder informing them of the changes to their holdings.• Last day for securities to be entered into the holders' security holdings to reflect the effect of the Consolidation.• Deferred settlement market ends. | Friday, 5 December 2014 |

Directors' recommendation

All Directors recommend that Shareholders vote in favour of the Resolution.

GLOSSARY

The following terms and abbreviations used in this Explanatory Memorandum have the following meanings:

| | |
|----------------------------|---|
| Board | The Board of Directors. |
| Company | BMG Resources Limited (ACN 107 118 678). |
| Consolidation | The consolidation of the Company's capital to be undertaken pursuant to the Resolution on a 10:1 basis. |
| Corporations Act | <i>Corporations Act 2001</i> (Cth). |
| Director | A Director of the Company. |
| General Meeting or Meeting | The General Meeting of the Company to be held on 24 November 2014. |
| Notice of Meeting | The Notice convening the General Meeting which accompanies this Explanatory Memorandum. |
| Option | An option to subscribe for a Share. |
| Proxy Form | The Proxy Form attached to the Notice of Meeting. |
| Security | A Share or an Option. |
| Shareholder | A registered holder of a Share. |
| Share | A fully paid ordinary share in the Company. |
| WST | Australian Western Standard Time, being the time in Perth, Western Australia. |